



TRANSITION OF SERVICES: COMMUNITY LIFE PROGRAM

Sponsored by:
Central Iowa
Community Services Region

July 1, 2014
Final

Parker Dennison

Behavioral Healthcare Consultants

Susan Parker, MT, CPA
Rusty Dennison, MA, MBA
Diane Bell, BS

Parker Dennison & Associates, Ltd.

7904 E. Chaparral Rd., Ste A110-627
Scottsdale, AZ 85250
www.ParkerDennison.com

Table of Contents

Table of Contents	3
Introduction and Project Scope	4
Overview of Community Life Program	5
<i>Clients and Services</i>	5
<i>Staff</i>	6
<i>Financial Performance</i>	6
Decisions by Region and County	10
Employee Transition Supports	14
Timeline	15
RFP Contents and Process	16
<i>RFP Components</i>	16
<i>Scoring Criteria and Process</i>	16

Introduction and Project Scope

Parker Dennison & Associates, Ltd. (Parker Dennison) was engaged by the Central Iowa Community Services Region (the Region) to evaluate the current structure and financial feasibility of the Story County-operated Community Life Program (CLP). Story County (the County) is committed to maintaining its level of services to the clients of CLP, although services should be structured to maximize reimbursement from Medicaid or other funding streams to eliminate the need for financial subsidies from the County or the Region. The intention is not to reduce services, but to create a feasible structure pursuant to the mandates of the new regionalization legislation structure as set forth by Iowa Code. The consultants from Parker Dennison have significant experience with the Iowa community services system, Medicaid reimbursement and transition of publicly operated services to private providers.

The engagement consisted of advance review of an extensive array of financial, clinical and operational materials supplied by CLP and the Region, and an onsite visit by two members of the consulting team, Susan Parker and Rusty Dennison. Onsite meetings were held with CLP management, representatives from the Region and other County staff in order to understand current CLP processes, service array, consumers served, staffing, and financial performance. Additional meetings were held to understand Regional procedures for procuring new services and contracting with private providers, and to learn about County employee benefits and human resource parameters that may impact current CLP operations or the transition of the services to private providers.

Prior to the initiation of the engagement, the Region had envisioned that the most likely course of action might be transitioning CLP services to a private provider or providers through a Request for Proposal (RFP) process. Parker Dennison supports the intention of the Region to seek more cost effective services than currently available from the County. Based on the high level review of data supplied by CLP and the financial performance of the program, Parker Dennison supports the intentions of the Region to transition the services to private operations. Despite recent progress by CLP management in restructuring operations, significant barriers exist to achieving financial viability as a unit of County government. Barriers include higher personnel costs from salary and benefit levels, absence of accounting, billing, and information management systems specific to healthcare services, costs of governmental overhead allocations and the inability to quickly adapt operations to be responsive to an evolving healthcare environment.

Overview of Community Life Program

A summary of the clients, services, staff and payers was developed based upon information supplied by the County, and was not independently validated by Parker Dennison.

Clients and Services

CLP serves approximately 200 – 250 clients per year, and nearly all have diagnoses of either mental illness (approximately 75%) or intellectual/developmental disabilities (approximately 25%). The service array includes:

- RCF, day habilitation and supported employment services for persons with mental illness reimbursed by Magellan Health (Medicaid) under a managed care contract with Iowa Department of Human Services.
- Supported community living (daily and hourly) and supported employment reimbursed by Iowa Medical Enterprises (Medicaid) for persons with intellectual or developmental disabilities.
- The Region also funds all of the above services for clients who are not eligible for Medicaid or are receiving services that are not reimbursable by Medicaid. Funding responsibility transitions from the County to the Region effective July 1, 2014.
 - The County currently funds a medication management service (med passes) to 10 – 20 clients to assist with medication compliance. As currently structured and administered, this is not a Medicaid reimbursable service, and has recently been restructured to move most clients through graduated levels of self-management to reduce the total County/Region cost for the service.
- Other—a small number of clients are served under the brain injury Medicaid waiver, and a small contract from Iowa Vocational Rehabilitation Services supports additional vocational and employment services.

Clinical Profile

In the absence of available standardized functional assessment data, diagnosis was used as a proxy for level of need of individuals being served in CLP programs. While this is admittedly insufficient as a singular determinate, CLP leadership did confirm Parker Dennison's impressions.

The diagnostic profile of persons served in CLP varies by program but certain patterns were identified:

- Persons being served with intellectual/developmental disabilities across all programs tended to have diagnoses consistent with mild to moderate functional impairment and relatively low level of need for intensive services.
- Persons being served with mental illnesses tended to have diagnoses consistent with moderate to moderately high functional impairments, especially those being served in the Habilitation service.

- Persons being funded through county funding, regardless of disability tended to have diagnoses consistent with mild to moderate functional impairment. This was particularly notable with the medication management service (med passes).

Staff

CLP currently has approximately 60 – 65 full time equivalent employees (FTEs), assuming that part time staff work 30 hours per week. Approximately half of the staff work in the three RCF sites and the balance work in all other programs. Approximately 70 – 75% of the employees are in a union. Employees under the MEPD program (less than 1 FTE total) are not included in these counts due to very small number of monthly hours required for Medicaid eligibility.

The number of CLP employees has been reduced over the last 12 months to improve financial performance, which caused difficulties with comparing current staffing levels and service costs to amounts reported in FY13 state and county cost reports. Staffing changes in FY14 also cause personnel costs through April 2014 to yield annualized personnel costs that are higher than current employment levels due to midyear changes and payout of accrued vacation. A full reconciliation of personnel costs was not performed because the RFP process should request detailed staffing levels and budgets from bidders, which should be based on the bidder's staffing costs and not rely solely on County staffing levels, salaries or benefits.

CLP operates three RCFs and five staffed apartment sites, which require staffing 24 hours per day/7 days per week. Assuring staff coverage at 24/7 sites always requires careful attention, and CLP management described staffing challenges that were already occurring at these sites. The staffing reductions that have occurred and the pending transition of CLP services at the end of FY15 are contributing to staffing coverage problems as staff use accrued time off, particularly sick time that is not paid out at termination. Therefore, County attention is needed in this area to assure sufficient staff for safety and risk management including ongoing client access to services and monitoring. Recommendations for a severance program are included in a later section of this report.

Financial Performance

CLP's annual loss from operations is approximately \$1 – 1.5 million based on County financial information for the department for FY13 and YTD FY14. The table below summarizes FY13 and projected FY14 financial results for CLP based on actual revenues and expenses through April 2014.

Revenues/Expenses	FY 2013	FY14 Annualized Estimate (4/30/14)	Difference
IME/Magellan (Medicaid)	1,952,125	1,731,792	(220,334)
IVRS	12,452	8,392	(4,061)
Clients PP	208,337	177,616	(30,721)
Others Counties	9,507	13,108	3,601
Other	113,143	68,094	(45,049)
Total Revenues	2,295,564	1,999,001	(296,563)
Est County billing (YTD FY14)	504,000	504,000	-
Adjusted Revenues	2,799,564	2,503,001	(296,563)
Salaries	2,288,515	2,189,916	(98,599)
Benefits	802,502	777,800	(24,702)
Contract Labor	21,375	32,922	11,547
Total Personnel Expenses	3,112,393	3,000,639	(111,754)
Non-Personnel	527,112	457,017	(70,095)
Total Expenses	3,639,505	3,457,656	(181,849)
Margin	(1,343,940)	(954,654)	389,286

To better reflect financial performance, revenues include an adjustment for estimated reimbursement from the County as though CLP had been a private provider in FY13 and FY14. The adjustment was calculated based on FY14 County billing information through 4/30/14, and these interdepartmental revenues/expenses are not recorded in the Story County accounting system. The same revenue adjustment amount was assumed for both years. The Region will be responsible for reimbursement of these services effective July 1, 2014, although the County will be fully responsible for the financial performance of CLP during FY 15.

The accounting firm responsible for the preparation of the County/CLP cost reports was unable to provide any projections of cost settlements from IME or Magellan for FY12 or FY13. Therefore, the analysis does not reflect any adjustments for projected cost settlements. The most recent cost settlement was for FY11 and resulted in additional payments totaling \$400,000, which would reduce CLP operating losses by approximately 30 – 40% if the amount for subsequent years is similar to FY11.

The analysis comparing FY13 to annualized FY14 shows that although some improvements in operating margins have been achieved, the program continues to operate at a substantial loss even assuming payments for past cost settlements. Transitioning the program to private operations should change CLP performance in several areas.

- Private providers have lower personnel costs due to lower salaries and benefits compared to County levels. It is also likely that private providers will have fewer total FTEs than CLP as a stand-alone community service provider in the County structure.
- Productivity levels and resulting billing should be higher, with industry standards at 50 – 60% productivity compared to current CLP levels of 35 – 45% for most service types.

- Private providers have information systems that are designed specifically for healthcare services, yielding information that should improve operations and require fewer staff resources. The cost to license and implement a system can be prohibitive for small providers, but should offer significant operational improvements at reasonable marginal cost if CLP services can be added to a provider who is already using a comprehensive clinical, administrative and financial healthcare information system.
- As a percentage of total budget, small community service providers face disproportionately high administrative costs for management, information systems and other infrastructure needs. Consolidations of healthcare providers have been increasing for several years, and it is increasingly difficult for community providers smaller than \$8 – 10 million in annual revenues to be financially viable. A larger organization can absorb fixed costs associated with key management positions, technology, and other required expenses, and have a lower proportion of administrative to total costs.
- Occupancy costs represent approximately 8% of CLP's total costs according to the FY13 CRIS Cost Report, including depreciation, repairs and personnel costs for two maintenance staff. This level of occupancy cost may not be sustainable by a private provider, particularly if the provider was required to rent or purchase the current properties at fair market value. Community service providers typically are unable to afford high quality space like that currently available to CLP, and it may be necessary to offer below market rent or other accommodations to support the successful and fiscally sustainable transition of CLP services.

There are a number of factors that cause projections of future revenues and expenses for CLP services after transition to be extremely challenging. These include: limited financial/billing data from County systems, differences between governmental and private operations, and cost structures that will be different depending on the proposals submitted by potential bidders. The table below compares cost data from cost reports for CLP to other providers in central Iowa, and illustrates that the costs for similar services are likely to be substantially less for private providers. The table also shows the potential range of service costs across different providers according to data from the Medicaid cost reports submitted to the Iowa Department of Human Services (DHS).

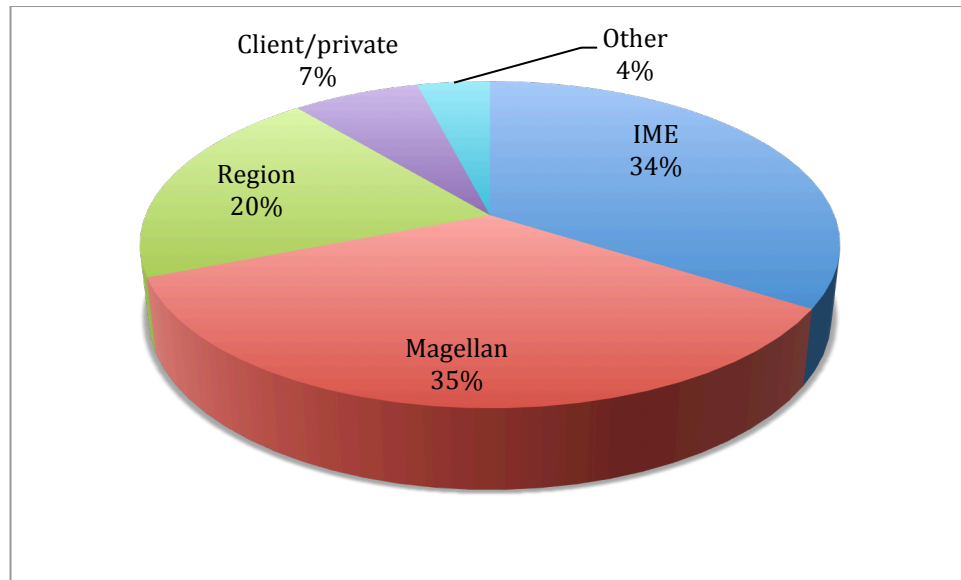
DHS Cost Report Data

6/30/13

Service	Unit	Average Cost/Unit		Cost Range Other
		CLP	Other Providers	
Habilitation/SCL	Hourly*	213	47	34 - 84
Habilitation/SCL	Daily	167	147	94 - 166

*Transitioned to 15 min unit 7/1/13

The CLP payer mix is shown in the chart below, and includes estimated County/Regional revenues based on County billing levels through 4/30/14. Medicaid is the primary payer at 69% of total revenues based on the total of IME and Magellan billing. Although the amount of billing may increase after transition of CLP services, the payer mix is not expected to change significantly.



Decisions by Region and County

The Region and the County must make several policy and financial decisions to be prepared for all of the activities required to transition CLP to a private provider or providers. The necessary decisions are summarized in the list below, along with recommendations from Parker Dennison in some areas based on the review of CLP operations and our experience from other states.

- **Request for Proposals (RFP) process**—The Region planned to proceed with an RFP process to gather information from organizations that have appropriate experience, resources and willingness to provide services to CLP clients. An RFP process typically demonstrates appropriate due diligence and stewardship of public funding, and Parker Dennison supports this approach for the transition of these services. Inclusion of both required and preferred elements of an RFP will assure key performance requirements in some areas, while allowing flexibility as appropriate. This RFP structure will assist the Region in identifying a sufficient number of potential responding organizations and for the inclusion of potential innovative approaches to meet the needs of the clients and the community. Additional information about the RFP content and process is provided in the last section of this report.
- **Single or multiple bidders**—The Region could seek either one bidder for all CLP services or could plan on two (or more) selected bidders based on either the primary client population/payers (mental illness/Magellan and ID-DD/IME) or the site types (RCF/day habilitation and supported community living). Based on the discussions with CLP and Regional staff, there does not appear to be any client benefits to seeking multiple bidders. Therefore, Parker Dennison recommends that the Region plan to award one contract for all of the former CLP services. This will allow the Region and the County to work with a single organization to complete the transition of clients, services and staff to reduce some of the complexities inherent with this type of process.
- **Finalize transition date**—The County needs to work with the Region to finalize the effective date of the transition of CLP clients and services since it will also be the date that employees must end County employment at CLP. The draft timeline later in this report assumes the transition date will be 6/30/15 since it appears to be the date used for planning thus far.
- **Transition**—Parker Dennison recommends that a specific transition plan be developed for CLP employees and details are provided in the next section. Due to staffing coverage challenges that are rapidly emerging at CLP, it may also be helpful for the County to arrange additional resources from temporary staffing agencies or from other County departments. These needs will exist for direct staff positions, particularly at 24/7 sites, key-person management, and for essential functions, such as finance and billing.

- **Assistance with Management of CLP**—The Region should explore with the County the feasibility of allowing the successful bidder(s) to add representatives from their organization(s) to participate in CLP management team functions as a part of the transition. This approach will help ensure a more seamless transition and allow the incoming provider(s) to gain understanding of the staff, clients and operations. The feasibility of this approach should be determined prior to development of the final RFP requirements to permit bidder responses to include the necessary resources.
- **Start-up and Transition Funding**—Due to the expenses that will be incurred for operating the former CLP services prior to billing and collections, the Region should seek bidders with cash reserves or access to an unused line of credit. If the bidder is currently providing similar services, the necessary level of start-up funding is projected to be up to 90 days of expenses and would be used for payroll and other operating expense between the transition effective date and reimbursement from Magellan, IME and the Region. The funding reserves or line of credit should be based on the proposed budget from the selected bidder, and is estimated to be \$750,000 – 875,000 based on FY14 annualized expenses. If a bidder is selected that does not have experience billing Iowa mental health or ID/DD services with an existing, installed billing system, necessary reserves should be up to six months of expenses. The budgets and transition plans of bidders should be reviewed to assure prompt billing following transition, and it may be necessary for the Region to consider a loan or advance to fund start-up cash flow needs.
- **County Property**—Story County currently owns four properties used by CLP for services and administrative operations—three RCF sites and an administrative/day habilitation building. These properties have no mortgages. There is also property used by CLP employees, including office equipment, RCF furnishings, computers, handicapped accessible vans and autos. To the extent legal and appropriate, Parker Dennison recommends that the buildings and most of the property be made available to the selected bidder at favorable terms to support the transition of CLP services. Prior to the development of the RFP by the Region, the County should establish any required parameters related to the use of the property. While requiring submission of budgets that reflect market costs for services, the RFP may permit flexibility from bidders on the use and reimbursement to the County related to their property. These resources could be used as in-kind transition support by leasing the buildings and property at below market rates for at least 1 – 3 years following the transition date. As noted in the financial section above, CLP occupancy costs appear high as a proportion of other direct costs, and it may be necessary to extend favorable lease terms beyond the initial transition to assure viability of the services. The use of the assets should be restricted to the purpose of serving the mental health and ID/DD needs of Regional residents, with provisions requiring appropriate maintenance of the property. The specific terms of any lease arrangements should be structured to appropriately take advantage of Magellan and IME rate setting methodologies and avoid disallowance of indirect or administrative costs.

- **Advance Regional Objectives**—The Region should determine if the RFP should include any elements designed to advance Regional objectives. Examples include growing community placements and services while targeting all or part of the RCFs toward more acute clients. If included, the elements related to Regional objectives should be reasonable, limited, longer term and represent a small proportion of the scoring weight.
- **Other Transition Issues**—The items listed below are other transition issues that should be addressed in the short term to position the CLP transition to be successful and meet the needs of County and Regional residents.
 - Brain injury waiver clients are a very small proportion of CLP operations (less than 1%), and Parker Dennison understands that there are alternative service providers in the community. Accordingly, Parker Dennison recommends transitioning these clients to other providers in the County outside the planned RFP process to simplify the range of services required from the new provider(s). The transition of these clients could occur in the next 60 – 90 days.
 - Supported employment services—The Region has an initiative underway to improve supported employment services by concentrating the resources and services into a smaller number of specialty providers. It may be beneficial to incorporate the current CLP supported employment services into the Regional initiative and move these services to other providers prior to the transition of the majority of CLP services. This approach is consistent with overall Regional objectives and will help simplify the CLP transition. In addition, CLP leadership reports that this change will likely improve staff efficiency and job satisfaction in the short term, which should positively contribute to staff retention in the transition.
 - The Region and County should plan for increased financial deficits at CLP as the transition date approaches. Staffing challenges and distractions and consequent decreased staff productivity will likely reduce IME and Magellan billing levels as the transition date approaches. The County should explore whether qualified resources are available from other County departments or supports within the Region that could assist with key CLP functions as the transition progresses.
 - The Region should resume referrals of clients to the extent possible based on available staffing levels. Referrals had been suspended to allow CLP to absorb recent programmatic changes; however, continuing to hold referrals will eventually yield fewer clients, and lower productivity and billing levels at CLP.
 - The County and Region should develop a plan for managing billing and documentation compliance risk as the CLP transition progresses. The County will bear the financial risk of Medicaid audit paybacks through the transition date, and the Region has appropriately qualified resources to assist with compliance reviews. The compliance plan should be limited in scope; using sampled records to review

CLP processes for assuring the presence of progress note and treatment plan documentation required for billing.

- The County should determine how CLP client clinical records can be transitioned to the new provider(s) in the most seamless manner while meeting HIPAA and other legal requirements.
- CLP's current CARF accreditation expires March 31, 2015, and it is required for billing of certain current services. Because the re-accreditation survey costs approximately \$10,000 and considerable staff time and will be needed only through the transition date, CLP should contact CARF to explain the circumstances and obtain a brief extension of accreditation.
- The County should assess the impact of discontinuing CLP services on other County functions and departments to determine if any cost reductions are possible in other areas.

Employee Transition Supports

In order to minimize disruption to consumers in CLP services, and to mitigate associated Region and County risk, staff retention efforts should be maximized. Failure to address employee retention in a comprehensive manner can result in inadequate and potentially unsafe staffing levels that can increase consumer regression, crisis, hospitalization and other risks. The County should develop a transition support plan for CLP employees focused on retaining essential staff and mitigating reduced billing levels and corresponding increased County financial losses. The transition support plan should be targeted to all employees who continue CLP/County employment through the final transition date while minimizing time-off, particularly for accrued sick time which is not paid at employee termination. Financial incentives for employees should be considered, such as bonuses for continuing employment through the final transition date and minimizing use of accrued sick time.

The employee transition support plan should be developed as soon as possible to be effective for staff retention. The terms of the plan should be approved by the County and communicated to employees by late summer or early fall. The plan development process should include an analysis of the projected costs of any staff retention incentives based on current CLP employees, including years of service, role (direct client service, management), and accrued vacation, sick, and compensatory time.

The plan should include a suite of appropriate human resources transition supports, such as Employee Assistance Program(s) for employee counseling and referral, outplacement resources, and job seeking coaching if available. The County should also determine the feasibility of any uniform and consistently applied provisions to support employees who will be terminated within a small number of months of achieving full retirement or other key employment milestones. In addition, though it may not be feasible for the County to accommodate individual situations that arise as a result of the transition of CLP services (such as a significant illness or injury where changes in health insurance could eliminate or substantially reduce coverage), it is important that the County be aware of these personnel issues so every reasonable effort can be made to provide appropriate support.

Timeline

The table below reflects the primary tasks, sequencing and milestones for the transition of services. Parker Dennison recommends that the Region review the table in the context of their more detailed knowledge of Region and County processes and associated timing requirements, and develop a timeline for the transition to be included in the RFP.

DATE	MILESTONE
7/1/14	Parker Dennison report received by the Region.
July	Develop draft proposed process for transitioning service and begin development of RFP
August	Regional Public forum for stakeholder input
	Parker Dennison report and Regional recommendations presented to Story County.
	RFP release
	RFP questions due
	Response to questions published
	Draft transition plan/options complete
September	RFP applications due
	Employee transition plan approved
October	Finalists selected and interviews/negotiations completed
	Award announced
November	Contract complete/executed
January	Contract effective date/bidder begins onsite presence-co-management
February	Bidder finalizes staff analysis and begins interviews of CLP employees
March	CLP staff interviews complete and offers extended
	County notification of employee terminations as of 6/30/15
April/May	Interview and hire other staff to meet staffing needs
May	DIA licensing transition complete to be effective 7/1/15
June	Final County payroll, including accrued vacation and any severance
7/1/15	Bidder begins service provision, billing and employment of former CLP staff

RFP Contents and Process

RFP Components

The elements listed below provide a high-level outline of the content that should be included in the Regional RFP.

- Description of existing CLP program and services
- Client numbers and clinical profile
- Financial profile—revenues, expenses, margin, productivity, billing by service, payer mix, cost settlement
- Regional strategic plans for service development that impact future services and priorities
- RFP evaluation and scoring overview
- Requirements to include in response, including Regional requirements and preferences
 - Service array
 - Capacity
 - Access to services
 - Appropriate transition of existing clients
 - Budget (identify key components or template)
 - Staffing levels by FTEs and credential (consider template)
 - Detailed transition plan from contract award through 12/31/15
- Bidder qualifications
 - Licenses or accreditations required
 - Experience with similar services and payers in Iowa
 - Cash reserves or evidence of available line of credit
- Submission requirements
 - Audited financial statements
 - Attestations
 - Licensing/CARF survey reports
 - References

Scoring Criteria and Process

At the same time the RFP is drafted, the Region should also develop its planned scoring criteria and process to assure alignment of the RFP contents with the scoring tools. An overview of the evaluation methods should be included in the RFP.

- **Develop scale and weighting**—A standard scoring tool should be developed that will be used to score all responses. The tool should include the total number of points available and the weighting assigned to each component of the RFP. At a minimum, the tool should reflect:
 - **Pass/fail items**—typically includes timely submission, required signatures, attachments and other items that cause the response to be complete and appropriate for scoring.

- **Points for Client Stability**—Consideration should be given for points allocated for plans and specificity in how the bidder will ensure the opportunity for continuity of service for existing clients and the minimization of disruption to clients and their families during the transition.
- **Points for required and preferred elements**—weighting should be the highest for the response components that are most critical to the successful transition and operation of services. Points may also be available for provisions of the RFP that are designated as preferred but not required. Typically, the required elements have the greatest scoring weight. A scale of 100-200 points appears appropriate for an RFP of this size.
 - Points for alignment with regional strategic plans—The Region has the option to allocate points to proposal content that specially identifies actions that align with Regional objectives included in the RFP.
 - Points for bidder finalist meetings—see below.
- **Budget and transition costs**—points associated with the budgeted service and transition costs should incorporate the feasibility of the service model and the appropriateness of proposed staffing, and should not be based solely on the lowest cost model. Any bidder(s) able to self-fund transition costs without Regional financial support should receive additional points.
- **Determine evaluation team**—Regional representatives on the evaluation team should be identified, along with any representatives from Story County. The Region may also include technical advisors to the team who can provide necessary assistance in financial, personnel, legal or other areas.
- **Plan scoring process**—The process for evaluating responses should be planned, including whether responses will be scored individually by each member of the evaluation team, or discussed and scored as a group during meetings. Meetings to discuss scoring should be planned to allow team members to share their approach and scoring rationale. Parker Dennison recommends that the evaluation process include selection of 2 – 3 finalists who participate in meetings with the evaluation team to answer questions and finalize any negotiated items. Points may be included for finalist meetings, or those discussions can be treated as negotiations.